



The Committee on Energy and Commerce

Internal Memorandum

February 14, 2012

To: Members, Subcommittee on Communications and Technology

From: Majority Committee Staff

Subject: Hearing on “The Budget and Spending of the Federal Communications Commission”

The Subcommittee on Communications and Technology will hold a hearing on Thursday, February 16, 2012, at 9:00 a.m. in 2123 Rayburn House Office Building on “The Budget and Spending of the Federal Communications Commission.”

I. Witnesses

Panel I

The Honorable Julius Genachowski
Chairman
Federal Communications Commission

Panel II

David H. Hunt
Inspector General
Federal Communications Commission

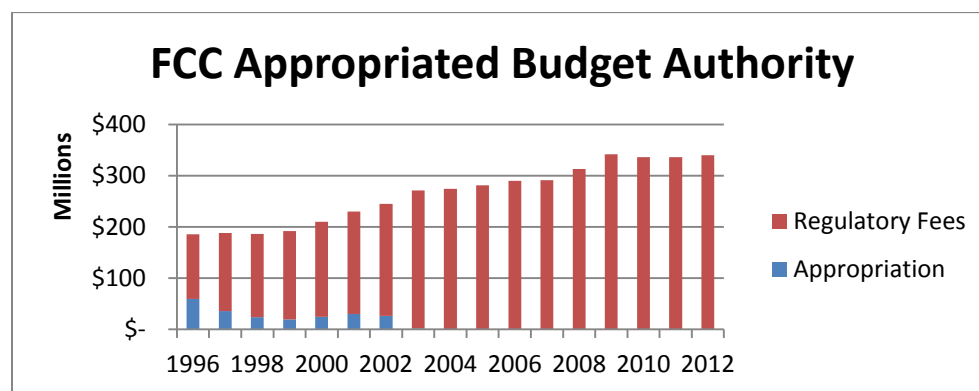
Scott Barash
Chief Executive Officer
Universal Service Administrative Company

II. Background

Historical Budgets.—The budget of the Federal Communications Commission (Commission) has historically come from three primary sources: appropriations, regulatory fees, and spectrum auction revenues. Congress last amended section 6 of The Communications Act to authorize the appropriations of funds to the Federal Communications Commission to carry out its functions for FY1990 and FY1991. In 1993, Congress granted the Commission authority to collect regulatory fees covering the costs of its enforcement activities, policy and rulemaking activities, user information services, and international activities to offset appropriations made to the Commission. That same year, Congress also authorized the Commission to retain a portion of the revenues raised from spectrum auctions to offset the cost of conducting those auctions.

Over the past two decades, Congress has repeatedly redirected the source of the Commission's budget authority away from Treasury revenues and to regulatory fees. As the following chart shows, the Commission received approximately one third of its discretionary budget from direct appropriations in FY1996, but Congress directly appropriated only \$1 million to the Commission in FY2003 and has not directly appropriated any money to the Commission since FY2008. Similarly, from FY1993 through FY2003, the Commission was able to withhold any amount of auction proceeds it deemed necessary to cover the costs of spectrum auctions; since FY2004, however, Congress has repeatedly capped the amount the Commission could withhold from spectrum auction revenues at \$85 million per year.

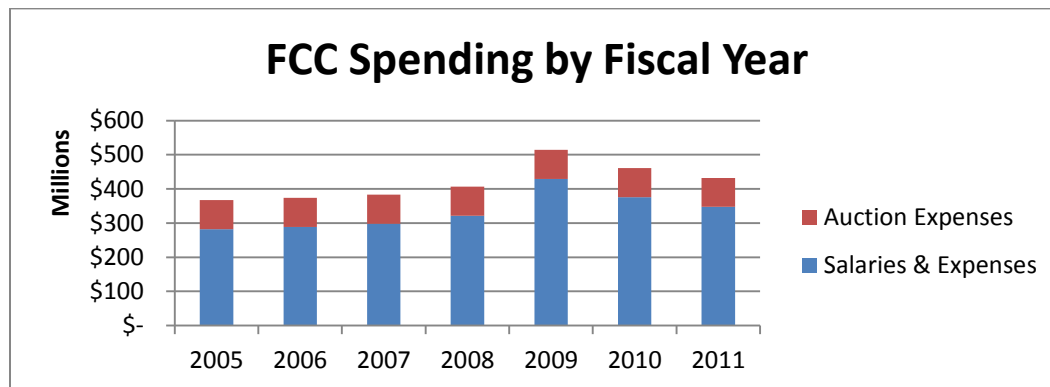
Congress authorized the Commission to collect regulatory fees of \$335.8 million in FY2011 and \$339.8 million in FY2012 to fund its activities. Section 9 of The Communications Act requires the Commission to collect regulatory fees from licensees and other regulated entities in proportion to the full-time equivalent number of employees (FTEs) working in each of the Commission's bureaus and adjusted to reasonably reflect the benefits provided to the payor of the fee by the Commission's activities. For FY2011, the Commission required traditional wireline and long-distance providers to pay 44 percent of all regulatory fees, cable operators to pay 17.5 percent, commercial wireless providers to pay 15.2 percent, television and radio broadcasters 14.3 percent, and all other regulated entities 9 percent. Although the Commission has not yet released its proposed allocations for FY2012, the Commission's FY2011 Notice stated its commitment to initiate a further rulemaking to rebalance the burdens of regulatory fees given changes in the communications marketplace.



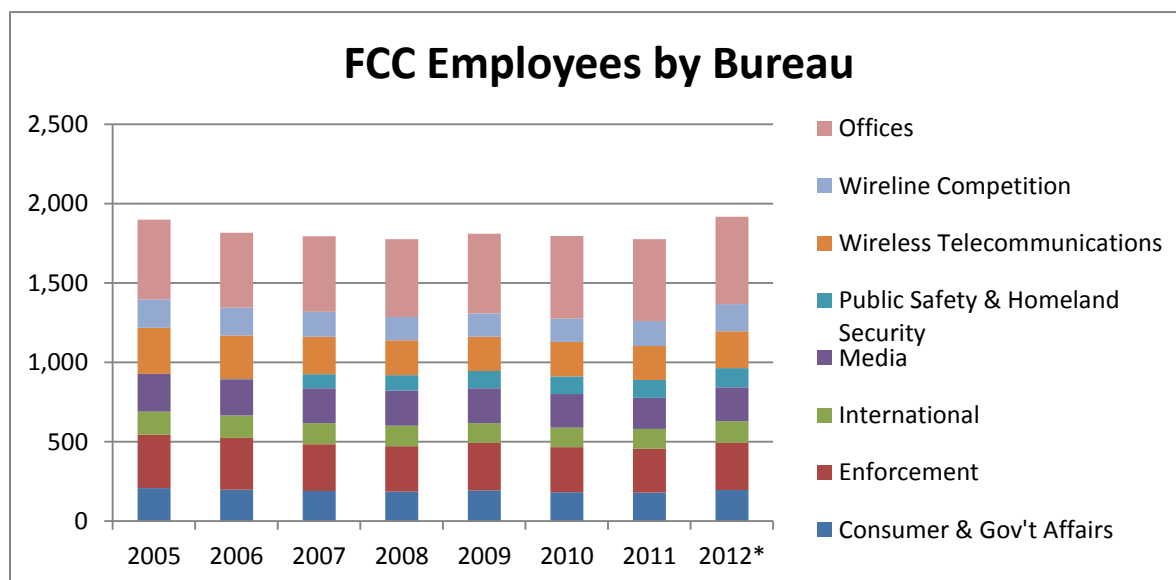
Source: Annual Appropriations Acts, FY1996–FY2012

Historical Spending.—The historical spending of the Commission, as reported in its annual Agency Financial Reports, may provide a clearer picture of the Commission's budget because it includes not only annual appropriations and regulatory fees, but also other budgetary resources such as offsetting auction receipts, interagency payments, and grants. The charts below show the annual obligations incurred by the Commission in each of the last six years, as well as the full-time equivalent employees apportioned among the Bureaus as a result of that spending.

In FY2011, the Commission spent \$84.4 million from auction receipts and \$347.5 million in other funds for a total budget of \$431.9 million. For that year, the Commission employed 1,776 full-time equivalent employees. Although the Commission has not estimated its total spending in FY2012, it has estimated that it will employ total of 1,917 federal workers this year.



Source: The Commission's Annual Financial Reports, FY2005–FY2011



Source: The Commission's Annual Performance Budgets, FY2007–FY2013; *estimated for FY2012

Fiscal Year 2013 Budget Request.—For FY2013, the Commission requests an increase in its appropriated budget to \$432 million, including \$85 million from auction receipts and \$347 million from regulatory fees. This proposal represents a net \$7 million increase from FY2012 funding levels, with \$10.6 million for new programs; \$5.1 million to maintain existing programs; \$1.1 million to replace aging radio-direction-finding vehicles; \$300,000 to improve the consultation abilities of the Office of Native Affairs and Policy; and savings of \$10.2 million based on a one-time appropriations adjustment and reductions to rent, contracts, and other expenses. The Commission estimates that it will have 1,917 employees for FY2012, and its request for FY2013 would maintain that number.

Of the \$10.6 million in new programs, \$3.6 million would be used to implement the Administration's cloud initiative, host the Commission's services at distributed data centers with improved cybersecurity capabilities, upgrade the ability to change service providers without affecting public use of the Commission's online services, and produce potential long-term savings. The Commission requests \$2.5 million to consolidate two data centers in Washington, D.C., as well as elements of a redundant site at the Commission's Gettysburg facility. The Commission requests another \$2.5 million to buy new radio-direction-finding equipment for the Commission's Enforcement Bureau; this equipment is used to determine the source and

significance of harmful interference to radio broadcasters and receivers. The Commission requests \$1 million to develop the technical capabilities of supporting interoperable public safety communications in the 700 MHz spectrum, \$500,000 for the Commission's test facility to support new wireless technologies including spectrum sensing equipment, and \$500,000 for a study on the link between the ownership and employment practices of communications providers and content they air.

The Commission has outlined eight strategic goals for FY2013: to connect America; maximize the benefits of spectrum; protect and empower consumers; promote investment, innovation, and America's global competitiveness; promote competition; promote public safety and homeland security; advance key national purposes; and achieve operational excellence. The Commission's budget proposal outlines several performance measures to evaluate its work towards these goals, including shot clocks for routine license applications (90 days), formal consumer complaints (one year), streamlined transactions (90 days), non-streamlined transactions (292 days), and space station applications (270 days), among others.

Inspector General.—The budget of the Commission's Office of the Inspector General is incorporated into the Commission's own budget request each year. Historically, the Commission has had discretion on how much to allocate to the Office of the Inspector General—in FY2007, for example, the Commission allocated \$4.1 million to the Office of the Inspector General to support 19 employees.

Congress has recently increased the autonomy of the Inspector General's budget. In FY2008, Congress transferred \$21.5 million from the Universal Service Fund to the Inspector General for additional auditing of universal service support recipients; of those \$21.5 million in funds, \$11.5 million remains of which \$5.5 million is expected to be used in FY2012 and \$6 million in later years. Similarly, Congress's FY2012 appropriation to the Commission set a minimum budget for the Inspector General's office of \$9.75 million. With that funding, the Inspector General has 45 employees for auditing and oversight.

For FY2013, the Commission requests that Congress set the Inspector General's budget at \$8.75 million to support the same number of employees as the office had in FY2012 (45 employees).

Universal Service Fund and the Universal Service Administrative Company.—The Administration's FY2013 Budget estimates that the Universal Service Fund will grow from \$8.7 billion in expenditures in 2011 to \$9.4 billion in 2012 and \$9.7 billion in 2013. According to the most recent estimates of the Universal Service Administrative Company (USAC), the Fund spent \$2.2 billion on the schools and libraries program, \$4 billion on the high-cost program, \$1.7 billion on the low-income program, and \$136 million on the rural healthcare program in 2011. According to those same estimates, the Fund had \$5.8 billion on hand at the beginning of the year, including \$4.8 billion in the schools and libraries account.

The budget of USAC is incorporated into the Fund's expenditures and paid for by contributors to the Fund. USAC's budget has steadily increased along with the Fund. USAC spent \$91.7 million on administration in 2008, \$99.6 million in 2009, and \$102.1 million in 2010. In 2010, USAC had 247 employees, costing a total of \$27.2 million or about one fourth of USAC's budget.

USAC has estimated its 2011 administrative expenses to be \$106 million. Of those expenses, 56.2 percent was spent on administering the schools and libraries program, 25.9 percent on the high-cost administrative expenses, 8.9 percent on the low-income program, and 9.3 percent on the rural healthcare program.

If you need more information, please call Neil Fried or Nicholas Degani at (202) 225-2927.